

STATE OF INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND

FRANK O'BANNON
GOVERNOR



E. WILLIAM BUTLER
EXECUTIVE DIRECTOR

M E M B E R U P D A T E **DECEMBER 2000**

MESSAGE FROM THE EXECUTIVE DIRECTOR E. William Butler

"Even though the retirement system has been in place for 12 years, it is still in its infancy. Many years will lapse before it reaches its full maturity. During the intervening years, the State must be constantly aware of the changing economic conditions and the Fund will need to be continuously revised in order to keep pace with the corresponding economic needs of the employee."

-Horace Abbott

Former PERF Board Chairman, Horace Abbott, made that statement back in 1957. His insight continues to ring true today, and carries a particularly interesting message nearly 45 years later. In the last newsletter, I remarked about the fact that things are changing here at PERF. At that time, the legislature was pondering Senate Bill 64, a measure we think is the most significant new piece of legislation in the history of PERF. I'm now happy to report that it passed and was signed by the Governor last Spring.

Let me just say that this new law gives PERF the tools it needs to bring better and fuller service to you. The General Assembly recognizes that you, the active and retired members of this Fund, deserve the best in service and security in your pension plan. By passing this legislation, they have made it possible for us to provide better service to you while, at the same time, we maintain a strong investment program in the global investment markets.

We feel the members and their employers are, in effect, the owners of the Fund. The assets entrusted to us from your employers will, after all, be invested for your benefit and returned to you when you retire. The legislature has given us the responsibility of protecting your retirement security by following prudent investment policies and paying benefits to you when you retire. We take this responsibility very seriously.

The staff and I will need your help as we move the fund into the 21st century. We think the owners should have a say in how the business is operated and we would like to hear from you. Many of you have offered suggestions for different services we might provide or ideas about how we might do things better. Many of those will become reality sometime in the future. If there are others who might have suggestions for us, we would like to hear them.

We also need your patience. Although the legislation opens the door for us to make changes, we hope you realize that it will take some time to implement them. The General Assembly has put the final piece of the puzzle in to modernize the Fund. But as with all improvements, we must take the time to do the job correctly. As the Fund makes changes, we will keep you informed. This newsletter is one example of how we will do so. Other communications plans include a more comprehensive annual report and regional pre-retirement conferences. A strong and effective communications program is one of our top priorities.

Another part of our communications program is a call center. Most of our members use the telephone to communicate with the Fund and we recognize that the current arrangement could be more effective. Therefore, we have made the establishment of a call center one of our highest priorities. In the coming year, we want to have a call center that will be able to provide answers to your inquiries and get you information in a quick and efficient manner. Presently, we are in the preliminary stages of assessing our needs and designing our system. We are excited about the changes we see for the Fund and want you to be a part of them. As always, please feel free to write, call or e-mail any of us with your suggestions or comments.

Happy Holidays!

2001 INDIANA PENSION LEGISLATION

Patrick Lane, *Director of Communications*

Each year the Pension Management Oversight Commission (PMOC) is presented with several difficult pension-related issues to be addressed in their deliberations prior to the upcoming legislative session. 2001 promises to be another busy year for our state legislators when the General Assembly reconvenes in January.

The PMOC has worked through a complex agenda throughout the summer, and is in the process of drafting their annual administrative bill to be introduced in the Indiana House of Representatives. It is likely that other pension-related issues will be brought before the State Legislature for their consideration this year. The items below merely represent those issues that were recommended by the 2000 Indiana General Assembly for further review by the PMOC. Among others, the changes affecting PERF members and their employers include:

- Simplifying the process of expanding an employer's coverage within PERF. Rather than securing full actuarial valuation prior to admitting new employees into the Fund, an expedited process will be made available to the employer to speed up the process;
- Allowing PERF employers to pick up all or part of the 3% employee contribution. Currently an employer can either pick up 100% of the contribution or none of the contribution. The Fund hopes this will provide employers more flexibility in expanding their coverage to their employees; and,
- Giving the Commission the opportunity to meet more frequently throughout the year. The number and complexity of issues surrounding the state's various pension funds are increasing each year. It is anticipated this will enhance the Commission's ability to tackle more issues each year with greater effectiveness.

However, two changes being proposed will have immediate and dramatic effects on the decisions PERF members will make throughout their careers in public service, as well as when they choose to retire. If the PMOC Bill is passed as it will be introduced, PERF members will have the ability to:

- Voluntarily contribute an additional 10% of their income to their Annuity Savings Account; and,
- Increase the allowable amount of compensation they may earn when re-employed in a PERF-covered position after retirement.

VOLUNTARY CONTRIBUTIONS TO THE ANNUITY SAVINGS ACCOUNT

In the 2000 Session of the Indiana General Assembly a bill was passed and signed into law by Governor O'Bannon allowing PERF members to voluntarily contribute more of their wages or salary into their Annuity Savings Accounts. However, there was some confusion in the language of the bill requiring clarification in the 2001 session. When the current bill passes, PERF members will be able to contribute up to an additional 10% of their income on top of the original 3% that is currently contributed into their Annuity Savings Account.

PERF has requested a special letter ruling from the Internal Revenue Service to determine the taxable treatment of these contributions. The IRS is considering PERF's request to have these contributions be made on a "pre-tax" basis.

EARNINGS LIMITATION FOR RETIRED MEMBERS

On April 7th of this year, President Clinton signed into law the "Freedom to Work Act" for seniors. This new federal law gives workers who have reached full retirement age (currently age 65) the right to work and receive their full Social Security retirement benefits. The repeal of the Social Security normal retirement earnings limitations significantly changes Indiana's statutory earnings limitation applied to PERF benefits, as well. The PMOC is proposing the following:

- No earnings limitation on PERF benefits for those members who are of normal retirement age (currently 65 years of age);
- Retirees below the Social Security normal retirement age may earn up to \$25,000 for the calendar year of re-employment before an earnings limitation is applied to their benefits under PERF. If their compensation in a PERF-covered position exceeds the "exempt" amount of \$25,000, their PERF benefits will be stopped until such a time the member leaves employment, or falls back below the annual exempt amount.

Please keep in mind that until approved or amended by the General Assembly, these are nothing more than proposals. We will keep you updated on the progress of these vital enhancements to the Fund in future updates, as well as the technical details of making your choices known to your payroll administrator and/or PERF.

TECHNOLOGY AND CUSTOMER SERVICE

Diann Clift, *M.I.S. Director*

In our last issue we introduced the State of Indiana Retirement Information System (SIRIS) project. Through this project, we will be replacing our current mainframe system with new hardware and software. We're happy to report that the first phase of this system is scheduled to come on-line January 2, 2001. Over the past 6 months, we have been busy designing and building our new system, preparing our data for conversion from the old system, and preparing our staff for the big changes that lie ahead. At this time, the PERF staff is busy testing the system to ensure it was built as requested, and we've begun training staff on those modules that have been completed.

The rollout for this phase of the project will provide quicker, more efficient access and better functionality in managing membership information. These changes may not be readily apparent to you as a member this early in the process, as these functions are performed in the background here at PERF. However, this is the first step in the incremental process of providing on-line access to your account information via our web page. Our current system does not provide adequate security to allow on-line access to member account information. The SIRIS system will provide the security necessary for real-time access to your account, but there is still some time before we reach that point.

As we told you before, SIRIS is providing a springboard for an integrated customer service center that will include on-line access to members, as well as the information used to handle inquiries through a fully functional call center. Your frustrations with the automated attendant are not lost on us here at PERF, and we truly regret any negative experiences you may have faced or currently face in trying to get your questions answered in a timely fashion. We are in the midst of assessing alternatives, and will report to you the steps we are taking to eliminate the problems with the current phone system.

Along with Phase 1 of the SIRIS project, we have begun a backfile conversion project. This project will allow us to take all the paper member records and convert them into electronic images. These images will be integrated into the SIRIS system and will be available to PERF staff on-line. The electronic images make member data more readily available to those staff who support our members and is one of the first steps in improving the speed and level of service to our members. In the coming months we will begin finalizing Phase 2 of this project which will provide increased benefit functionality. Phase 2 is scheduled to come on-line next summer.

Your frustrations with the automated attendant are not lost on us here at PERF, and we truly regret any negative experiences you may have faced or currently face in trying to get your questions answered in a timely fashion. We are in the midst of assessing alternatives, and will report to you the steps we are taking to eliminate the problems with the current phone system.

ON-LINE RESOURCES FOR FINANCIAL PLANNING

We strongly recommend referencing proven financial publications such as the Wall Street Journal. Further, the Internet has provided new opportunities for accessing abundant resources. The following federal government agencies and commercial and not-for-profit organizations provide valuable background information on retirement planning, personal savings and financial planning and investments.

Social Security Administration

www.ssa.gov

American Savings Education Council

www.asec.org

American Association for Retired Persons (AARP)

www.aarp.org

Securities and Exchange Commission (SEC)

www.sec.gov

Get Financially Fit by the Department of Labor

www.dol.gov

Wall Street Journal Magazine of Personal Business

www.smartmoney.com

HELPING US HELP YOU

KEEPING YOUR ADDRESS CURRENT

An essential piece of our ability to provide efficient customer service is having a current address for our members. Please remember to contact us when your address changes. After 60-90 days, the post office will no longer forward mail to your new address. Consequently, you will no longer receive quarterly statements of your Annuity Savings Account and updates of developments within the Fund that benefit you as a member unless you complete a Change of Address form with our office. They can be easily attained via the PERF website, your human resources department, or directly from our office.

ADVANTAGES OF DIRECT DEPOSIT

A common problem we face today is retirement checks arriving late to your home, or being lost in the mail altogether. This is a problem with a simple solution—*Direct Deposit*. Every month, your retirement benefits under PERF could be deposited into the account of your choice for immediate use on the 15th of each month. If your benefit check becomes lost in the mail, it can be a 2-3 week process to replace it. Direct deposit is a reliable and consistent means of receiving your PERF benefit in a timely and accurate fashion. We strongly encourage all our retired members to utilize this valuable service.

Q & A

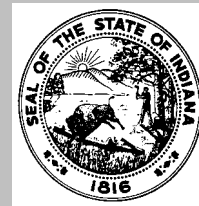
Q: Can a PERF member borrow money against their Annuity Savings Account?

A: Borrowing against personal retirement accounts is a recent and popular phenomenon. Loans against employer sponsored 401(k) programs, Individual Retirement Accounts (IRAs), IRA Rollovers, etc. have become an accessible pool of money for Americans to tap into their retirement savings ahead of time. However, as a member of PERF, it is important to understand that this does not extend to your Annuity Savings Account. **PERF members may not currently borrow money from their pension under the State of Indiana.**

While these loans may appear attractive at first glance, they may not be for everyone. On the surface, there are three enticing incentives to these types of loans: 1) the loan is easy to qualify for; 2) loan repayment can be made over 5 years, and if used for the purchase of a home, can run up to 10 years; and, 3) they appear to be a win-win proposition when considering interest on the loan is repaid to your retirement account.

However, these loans can cost more upon further review. First, during the period of the loan, you are forfeiting the tax-free earning power of investment returns on that portion of your account, which often exceeds the interest rate of the loan. Secondly, although your interest payments go back into your retirement account, your regular contributions—unlike 401(k)/IRA loan repayments—are made with after tax dollars. Consequently, at retirement your distributions will all be taxable, including the loan interest you previously paid. You end up paying taxes twice on this money. Keep these things in mind as you decide if a loan of this type is right for you.

DECEMBER 2000



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